Trade and Project Financing

How Do I Get Paid (Methods of Payment) **Return to top**

The majority of U.S. firms exporting to Vietnam conduct business on a documentary basis and use various methods of payment, such as L/C's, drafts and wire transfers. All foreign businesses dealing with Vietnam should insist on using confirmed, irrevocable L/C's when initiating relationships with new importers and distributors. Vietnamese companies often will resist the use of confirmed L/C's, because of the additional cost and collateral requirements required by Vietnamese banks.

Some local companies with acceptable credit risk (mainly State-Owned Enterprises) have been able to obtain credit facilities, including import finance from foreign banks. For these importers, confirmation of L/Cs opened by their foreign bank may not be required and faster payment could be expected.

In the past, most Vietnamese companies have requested deferred payment L/Cs, with extensions of up to 360 and even 540 days. Most lenders have stopped this practice until the banking system's liquidity status improves. At present, sight L/Cs and L/Cs up to 180 days are most common.

U.S. exporters should make sure that Vietnamese banks opening L/Cs are located in Hanoi or Ho Chi Minh City. Many exporters have found a general lack of expertise in dealing with L/Cs at Vietnamese bank branches situated outside of these principal commercial centers. Care should also be taken as to which bank will open the L/C. Foreign banks have greater capacity, but costs will be lower if the L/C is opened by one of the four state-owned banks. Costs will be higher if a foreign bank confirms the L/C, but L/C confirmation will shift risk from the Vietnamese bank and account party to a foreign bank, which can be a high quality risk. After establishing a commercial relationship with and the financial credibility of a local importer, U.S. exporters have offered goods against less restrictive forms of payment, including consignment, but this can be risky.

For assurance L/C, a government regulation now requires Vietnamese companies to deposit 80 percent of the L/C value prior to its opening at the bank. This regulation applies to all non-essential goods and can affect the ability of the Vietnamese to enter into an import transaction, since many companies are working with constrained capital.

Furthermore, recent regulations prohibit deferred L/C's with terms extended to greater than 360 days.

How Does the Banking System Operate **Return to top**

Vietnam is making progress in developing the basic infrastructure to support a modern banking system and financial markets. Recent projects to modernize the inter-bank market, create an international accounting system, and allow outside audits of major Vietnamese banks are encouraging. However, the banking system continues to suffer from a lack of consumer confidence, inexperience in capital markets and the slow pace of institutional reform.

The central bank, the State Bank of Vietnam (SBV) was broken up in 1988 with the State Bank assuming the enhanced regulatory role and commercial activities being shifted to other institutions. SBV now supervises four state-owned commercial banks (SOCBs), and a number of joint-stock (private) banks, joint-venture banks, representative offices of foreign banks, and branches of foreign banks. A handful of the foreign banks have branches in both Hanoi and Ho Chi Minh City.

The four state-owned banks dominate domestic banking activity. They are the Bank of Foreign Trade (Vietcombank) which is the de-facto import-export and trade-financing bank. The Vietnam Industrial and Commercial Bank (Vietincombank) which is the primary financier for industrial development. The Vietnam Bank for Agriculture and Rural Development (BARD) which finances agriculture and commodities. The Vietnam Bank for Investment and Development (BIDV) which is the infrastructure bank.

In addition to the four state-owned banks, foreign banks recognize three joint-stock banks as viable partners. They are the Asian Commercial Bank (ACB), the Maritime Bank and the Export-Import Bank.

The opening of Vietnam's economy has placed new demands on a financial sector that until the early 1990s operated largely in isolation from international standards and practices. The Vietnamese banking system continues to experience credibility problems in the international financial community. Its banks are poorly managed, not subject to standards laid out in the Basel capital accords, not audited by international caliber auditing firms (and if they are the results are state secrets), do not hold to international accounting standards and are overexposed to the state sector.

However, this situation is slowly changing. In 2001, the Vietnamese government adopted a more market-oriented banking and state enterprise reform program. The goals of this reform program, supported by the International Monetary Fund, the World Bank, and other international donors, including the United States, is to ensure the stability of the banking system, to expand banking services, and to rationalize domestic resource allocation by ensuring those resources are dedicated to commercially viable activities. The reform program focuses on three main areas – the restructuring of joint stock banks, the restructuring and commercialization of the state-owned banks, and improving the regulatory framework and enhancing transparency.

The State Bank of Vietnam acts as the supervisory and regulatory body for the banking sector. As part of the reform effort, and in response to new responsibilities created by the U.S.- Vietnam Bilateral Trade Agreement, the State Bank of Vietnam is in the process of strengthening its own internal processes and enhancing the level of inspection and supervision of the banks within its jurisdiction. However, the SBV is not an independent body like the United States Federal Reserve, and it continues to operate under government guidance. In some key areas of operation, such as the provision of liquidity support, the management of foreign currency reserves, and issuance of banking licenses, SBV's actions are subject to prime ministerial approval.

Deposit Insurance in Vietnam was instituted in 2000 and is governed by SBV Decree No. 89/1999/ND-CP dated September 1st, 1999 ,and SBV Circular No. 03/2000/TT-NHNH5 dated March 16th, 2000. Under these guidelines a bank must purchase deposit insurance from the Deposit Insurance Corp. of Vietnam for all Dong deposits placed by individual depositors. The bank must pay an annual premium equivalent to 0.15 percent of average balances of all dong deposits of individual account holders and this premium is payable in four installments. The maximum insured amount is VND 30 million per account/individual per bank.

The effectiveness of deposit insurance has not been tested since the Deposit Insurance Corp. is recently established and no bank has failed since the inception of the insurance. This, coupled with the question of whether local banks are actually paying the insurance premiums, makes the effectiveness and solvency of deposit insurance an unknown.

Vietnamese banks do not have Bank for International Settlement (BIS) tier ratings. Vietnam has not adopted the Basel capital accord so details of risk-adjusted assets and calculation of risk-adjusted capital ratios are not calculated or disclosed.

In theory, banks are encouraged to adopt prudent banking and business practices. Regulatory provisions exist requiring them to establish controlling committees and internal audit functions to ensure legal and procedural compliance. In practice, however, because of the cozy relationship between the SOCBs and the government, prudent banking and business practices are not always adhered to. In addition, this process has just begun so most SOCBs are not adequately staffed to carry out these internal audit functions.

International donors, including the United States, funded the first financial audits of the four large SOCBs using International Accounting Standards in 2001 and 2002. In addition, the State Bank of Vietnam has issued a number of new guidelines for the operation of the state-owned banks, including specific targets and guidelines which must be met in order to receive phased re-capitalization funds.

In Vietnam, bank financial statements are not in compliance with International standards because Vietnam does not use international generally accepted accounting principals. The Vietnamese Accounting System is a hybrid of the centrally planned old Soviet-Union system (cash basis) and an international accounting system (accrual basis). With the exception of the donor-sponsored audits noted above, the financial statements of state-owned commercial banks (SOCBs) are not audited by independent auditors but rather by the State.

Vietnam is trying hard to wean the role of the SOCBs as instruments of public policy, and change the process by which financial resources are harnessed and allocated. Although there are no mandated policy-lending objectives in Vietnam, bank lending historically has been influenced by socially and politically oriented objectives rather than commercial considerations. In practice, socially oriented lending is quite pervasive, and adopting more prudent lending standards will take some time.

The four SOCBs account for three-fourths of the credit market in Vietnam. For these banks, state-owned enterprises remain the main recipients of bank credit, typically borrowing on an unsecured basis at concessionary interest rates.

The true level of non-performing and under-performing loans is difficult to gauge, as there is a very low level of transparency and disclosure in Vietnam. Secrecy laws cover much of the banking industry's data and meaningful information on the sector as a whole and on individual financial institutions has typically not been available. As part of the banking reform effort, new rules for the classification of non-performing loans which conform to international standards were issued in 2001.

Prior to 1999, loans were not, by convention, classified as impaired until they were over due by at least 360 days, and even then, asset quality measures disclosed by banks were based on only the overdue installments, rather than total principal. Since 1999, banks have been required to classify their credit assets according to four categories: loans that are performing satisfactorily and that have not yet fallen due; fully secured loans overdue up to 180 days and unsecured loans past due 90 days; secured loans, which are overdue from 180 days to 360 days; and, secured loans, which are past due 360 days or unsecured loans past due 180 days. As of 2002, banking regulations were brought closer to international accounting norms by allowing banks to classify the entire loan as overdue when an installment payment is missed. Banks were also permitted to accelerate the terms of the loan and were given more discretion in setting interest rates on overdue debt.

Officially, overdue loans in the banking system were about 12-14 percent of total assets in mid-1999, although the basis of the calculation is unclear. A recent report by the IMF stated that, based on audits undertaken in 1997 that adhered to internationally accepted standards, impaired loan ratios in the SOCBs ranged from 17 percent of total loans to as high as 50 percent. According to the IMF report, non-performing loans in the sector averaged about 30-35 percent. For the joint-stock commercial banks, most of which have been capitalized at a minimum of VND 70 billion or about $5 million, the non-performing loans of these banks are widely believed to be significantly higher.

Over the last few years, there has been tremendous credit expansion by the SOCBs (20-30 percent increase) in order to pump up the economy. Many of the new loans are seen to be less commercially viable than the loans already in the SOCBs portfolios, prompting experts to be concerned that a large number of these loans will default.

Despite the relative weakness of Vietnamese banks, deposits have been increasing quite rapidly. But, having started from such a low base, they are still relatively small compared to GDP. Vietnam continues to operate largely as a cash economy with an estimated 45 percent of money as cash and over 50 percent of local business transactions conducted outside of the banking system. At present, there are only around 1.3 million individual bank accounts for a population of 82 million. Part of the issue for local banks is the matter of confidentiality. Many Vietnamese do not want the bank, the government and others to know the value of their assets. Another part of the difficulty in encouraging domestic savings, and therefore speeding the development of capital markets, is the managed interest rate, which does not reflect market rates.

Despite the official policy of designating the Vietnamese dong as the medium of exchange for all domestic transactions, the U.S. dollar remains an important parallel currency. Estimates suggest that over $2 billion is in circulation in the informal market. Some experts believe that an additional $8-10 billion in hard currency and gold is being hoarded by private citizens. United States dollars are also the preferred currency for international trade, although the Vietnamese government has indicated it intends to move more aggressively to de-dollarize the economy.

Foreign-Exchange Controls

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The Foreign Exchange laws in Vietnam have undergone a number of changes in 2000 and 2001. The percentage of hard currency that local companies must surrender to the State Bank of Vietnam has been reduced and the long-term act of 'balancing' done by Foreign Invested Enterprises has been eliminated in favor of a similar currency surrendering scheme.

What this means is that the State Bank of Vietnam is trying hard to increase its reserve of hard currency so that it can allocate the currency to enterprises that need it. For foreign traders, that usually means the importer or end customer. In Vietnam the end-user is often a State-Owned Enterprise (SOE) that has little ability to raise hard currency and must depend on allocations by the State Bank of Vietnam (SBV) to cover offshore transactions. The hope among the government and SBV is that the new currency surrender rules will free up more hard currency for this type of transaction.

In general, it may be assumed that an enterprise may need to have 'rights' to access foreign currency. Moreover, even though the "right" to convert exists, there is no implied assurance of availability.

Conversion of Vietnamese Dong into hard currency no longer requires a foreign exchange approval, which previously had presented problems for foreign investors, particularly for businesses who did not fall into the three specified categories, which received government support on currency conversion. However, conversion of Vietnamese Dong into hard currency is still subject to availability. The requirement for all domestic and foreign invested companies to sell a certain portion of their foreign currency income was reduced from 80 percent (in 1998) to 50 percent (in 1999), 40 percent (in 2001), and now 30 percent (from May 2002).

It is worth noting that the State Bank of Vietnam has also shifted the control mechanism of foreign exchange from maintaining a fixed exchange rate and making ad-hoc adjustments when deemed necessary to allowing the exchange rate to move within a pre-determined band. This has brought the Vietnamese dong closer to its real value.

U.S. Banks and Local Correspondent Banks

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Following the lifting of the U.S. trade embargo in 1994, several U.S. banks established a presence in Vietnam. The Bank of America and Citibank have received branch licenses in Hanoi and, in January 1998 and March 1999, Citibank and Chase, respectively, were granted branch licenses, which would allow them to conduct full banking operations in Ho Chi Minh City. In February 2002, Bank of America closed down its operations and withdrew from Vietnam.

The following state-owned banks are the most active in terms of correspondent relationships with U.S. banks: Vietcombank, Vietincombank, the Bank for Agriculture and the Bank for Investment and Development. In addition, several joint-stock banks have correspondent relationships, such as the Asian Commercial Bank (ACB), Vietnam Export-Import Bank (EXIM Bank), the Maritime Bank, Saigon Commercial and Industrial Bank, and the Vietnam Commercial Joint-Stock Bank for Private Enterprise (VP Bank).

Project Financing

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United States Government supported export financing, project financing, loan guarantee and insurance programs are available through the U.S. Export-Import Bank (EXIM Bank) and the Overseas Private Investment Corporation (OPIC) for transactions in Vietnam. The establishment of these two agencies' programs in Vietnam coupled with the activities of the Trade and Development Agency (TDA), which provides grants for feasibility studies and training for commercial projects being pursued by U.S. firms, has enhanced the competitiveness of American companies in Vietnam.

The Export-Import Bank (EXIM Bank) offers export financing of American products through loans and loan guarantees, as well as providing working capital guarantees and export credit insurance. EXIM Bank is one of the newest U.S. Government agencies in

Vietnam, having only signed the Framework Guarantee Agreement (a necessary step to opening programs) with the State Bank of Vietnam on December 9, 1999. Information on EXIM Bank programs in Vietnam can be accessed at www.exim.gov.

The Overseas Private Investment Corporation encourages private American business investment in emerging economies by providing project financing and political risk insurance, including against currency inconvertibility, expropriation, and political violence. OPIC has been in operation in Vietnam since the Jackson-Vanik Waiver of 1998 and has approved the first loan and insurance application. Information on OPIC programs in Vietnam can be accessed at www.opic.gov.

In principle, state-owned banks could provide export financing to US firms operating in Vietnam, but in reality such financing is more likely to come from joint-stock banks or the branches of foreign banks in Hanoi or Ho Chi Minh City. Many foreign firms finance such exports internally.

When dealing with importers or financing originating in Vietnam, U.S. suppliers should request irrevocable letters of credit (L/C's). They should have one of their correspondent banks confirm the L/C's. Foreign banks tend to only deal with the four state-owned banks (Vietincombank, Vietcombank, BARD and BIDV) and three top-tier joint-stock banks (ACB, Maritime Bank and EXIM Bank) for trade financing.

American banks present in Vietnam include American Express Bank, Chase Manhattan Bank, and Citibank. Other U.S. banks operate out of operations centers in nearby countries. All of the American banks offer trade financing services to U.S. companies, with Chase Manhattan Bank and Citibank offering on-shore services as licensed branches, and American Express Bank offering off-shore services. Other large foreign banks operating in Vietnam include ABN Amro Bank, ANZ Bank, BFCE, Credit Lyonnais, HSBC, ING Bank, and Standard Chartered Bank. Though almost all foreign banks concentrate on wholesale banking, some of these offer retail banking services and ATM and electronic on-line service mostly for the use of expatriates in Vietnam.

Bilateral government tied aid, commonly offered by the governments of our competitors, provide non-US companies with a comparative advantage that affects American trade performance in Vietnam. Sometimes these are actually soft loan programs designed to support a particular country's exporters. American firms, otherwise competitive on price and quality, sometimes lose contracts because they cannot compete with the low interest rates and/or soft repayment terms offered by the government of a competing company. The introduction of U.S. EXIM and OPIC has somewhat offset this advantage.

Project Financing: Vietnam secures a substantial portion of its development funding from Official Development Assistance (ODA), including the multilateral development banks (primarily the World Bank (WB) and Asian Development Bank (ADB), the Japanese Bank for International Cooperation (JBIC), and the United Nations Development Program (UNDP). American firms can participate in projects funded by these agencies.

The World Bank maintains a relatively large funding program for Vietnam. Projects focus on macro-economic policy, financing policies, and infrastructure projects in the power, energy, transportation and environmental sectors. Procurements for World Bank funded projects are conducted using competitive bidding procedures.

The Asian Development Bank (ADB) provides development funding for investment projects concentrating in power, transportation, fishing, agriculture, and the environment. Tenders are also conducted based on international bidding standards.

Both the World Bank, through the International Finance Corporation (IFC) and the ADB, through the Private Sector Group, offer both debt and equity for private sector projects in a wide variety of business sectors. Financing through these agencies can have long lead times (12 months or more), so U.S. firms need to apply early should they desire access to support for investment projects.

The Japanese Bank for International Cooperation (JBIC) is a merger of The Overseas Economic Cooperation Fund (OECF) and the Japanese Export Import Bank (JEXIM). JBIC is a general untied funding agency, which provides financing for infrastructure projects. American firms are eligible to compete for JBIC loan projects in accordance with procurement notices published by the recipient government or government related agencies. Opportunities can include prime contractor and sub-contractor roles. U.S. firms can also receive financing of up to 85 percent of an international trade transaction, if the sale contains at least 30 percent of Japanese goods.

The United Nations Development Program (UNDP) provides funding for industrial and agriculture development. UNDP in Vietnam is active across a broad front of industry and social sectors and sponsors numerous public sector, social, agricultural, and refugee assistance programs. Project tenders are conducted in the same manner as World Bank tenders.

In recent years, several domestic and international leasing companies have received licenses to conduct business in Vietnam. While the initial capitalization is small ($ 5-10 million), these companies could play a significant role as alternative financiers in the future, focused on the leasing of capital equipment. At present, their ability to transact business is limited because credit insurance for leasers is not available in Vietnam. The leaser must therefore carefully scrutinize potential clients. There are also certain legal constraints to the ownership of leased goods.

Availability of loan guarantees: A wide variety of bilateral and multilateral loan guarantee programs are available to U.S. companies from such organizations as the Export-Import Bank of the United States, the Overseas Private Insurance Corporation, the World Bank, and the Asian Development Bank.

Although Vietnamese banks (and their regulators) tend to have a strong preference for collateral, it may be possible for US firms to utilize parent company or third-party guarantees in seeking loans. That said, most foreign companies operating in Vietnam will not rely primarily on the local banking system for financing.

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Export-Import Bank of the United States: http://www.exim.gov

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

OPIC: http://www.opic.gov

Trade and Development Agency: http://www.tda.gov/

SBA's Office of International Trade: http://www.sba.gov/oit/

USDA Commodity Credit Corporation: http://www.fsa.usda.gov/ccc/default.htm

U.S. Agency for International Development: http://www.usaid.gov

World Bank (WB): http://www.worldbank.org/

Asian Development Bank (ADB): http://www.adb.org/

United Nations Development Program (UNDP): http://www.undp.org/

International Monetary Fund (IMF): http://www.imf.org/

International Finance Corporation (IFC): http://www.ifc.org/

Mekong Private Sector Development Facility: http://www.mpdf.org/index.jsp